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SUBJECT: EB SPECIAL REPRESENTATIVE MERMOUD TALKS BUSINESS
IN OMAN (C-NE4--01168)

REF: MUSCAT 142

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1. (SBU) Summary: During recent meetings with senior State Department official Frank Mermoud, Omani government officials and members of the local and American business communities provided valuable insights into the upcoming free trade agreement (FTA) talks and the issues facing American companies in the Sultanate. Omanization, training, and visa policy stood out among the concerns raised. One official described the abundant opportunities available in the newly privatized power and water sectors, yet lamented the lack of American interest in current and upcoming projects. Mr. Mermoud took the opportunity to register USG interest in Bechtel's (successful) bid on an aluminum smelter project with various officials in support of the company's formal advocacy request. End summary.

2. (U) Department of State Special Representative for Commercial and Business Affairs J. Frank Mermoud visited Oman on January 31-February 1 as part of an effort to gauge the overall climate for American commerce and investment in the Gulf region. With FTA negotiations slated for the middle of March in Muscat, this visit served as a reminder of the many opportunities available to American firms in the Sultanate. The two-day trip also highlighted additional areas where American and Omani firms can work with the Embassy to generate new business.

Opportunities in the Power and Water Sector

3. (SBU) Mr. Mermoud's initial meeting was with Bob Bryniak, the Canadian CEO of the newly established Oman Power and Water Procurement Company (Oman PWP). Privatization of electricity and water services is yielding significant new opportunities for American exports and investment, and two U.S. firms (AES and PSE&G) are already active in the local market. Future tenders include a prospective 400-600 MW power and desalination plant somewhere in the Batinah coastal region northwest of Muscat; the sale of the government's 585 MW Rusayl power plant; and a desalination project in the eastern port city of Sur. Bryniak expressed his dismay that American companies are overlooking the Omani market, despite Oman PWP's efforts to lure them to the Sultanate. Instead, British, Canadian, Dutch, Belgian, and other companies appear to be increasing their presence in the local utilities market. Bryniak's "wish list" for American firms would include top names among engineering and technical firms (e.g., Bechtel, Black & Veatch, Fluor, SAIC, Duke Energy, etc.), as well as prominent consulting firms specialized in privatization.

Dow, Oman Oil Company

4. (SBU) Mr. Mermoud visited the offices of Oman Oil Company (OOC) for three separate meetings. The first was with Assilah al-Harthy, Head of Corporate Affairs for OOC, who complained bitterly about her poor treatment by Immigration in the U.S. last spring. Although she claims she will visit again in March or April 2005, she knows a number of Omanis are refusing to travel to the U.S. on business for fear of harassment or delay at American airports.

5. (SBU) The second meeting at OOC involved Bill Ray, the British CEO of the Oman Petrochemicals Industries Company. Ray is from the Dow Chemical Company, and he has been on the job for a mere four weeks as Dow establishes its initial presence in Oman under the terms of its joint venture with OOC and the Omani government. Although there are only a handful of people in Oman developing the project at this time, the plan calls for up to 700-800 individuals operating a petrochemical plant in Sohar by the end of the decade (a figure which could include "several hundred" Americans).

Given Dow's strong commitment to hiring and training Omani nationals, Mermoud commented that Dow's venture in Oman might be an excellent future candidate for the Secretary's Award for Corporate Excellence.

16. (SBU) Lastly, Mr. Mermoud met with OOC Deputy CEO Mulham al-Jarf, who offered a positive outlook on U.S. investor interest in Oman. He said the lower dollar was finally beginning to pay some dividends for U.S. bidders. He gave Bechtel's bid on the aluminum smelter project (partly owned by OOC) a favorable review, and likewise noted that upstream gas firm IHS Energy (based in Colorado) had recently been in talks with OOC on a project. Al-Jarf shared a privately commissioned study on the downstream manufacturing potential for gas-fed industries in the Sohar Industrial Port area. A schematic listed over 50 different products, ranging from antioxidants to yarn, that can eventually spin out from the industries going in to Sohar. Each family of products could support foreign and Omani firms and employ many times the number of personnel currently envisioned.

Chambers of Commerce

17. (SBU) Mr. Mermoud met with the President and Secretary of the Muscat American Business Council (MABC) over dinner. Both men raised concerns about the Omani government Omanization policy and the implication for hiring qualified workers, developing training programs, and budgeting for business expansions. They also expressed an interest in hearing about the Administration's plans to engage more forcefully in the dialogue between Israel and the Palestinians, as well as the need to assure stability in Iraq. The MABC President indirectly raised USG visa policy by stating his fear that the United States is failing to attract enough businesspeople and students from the Arab world.

18. (SBU) Mr. Mermoud traded thoughts on the FTA with Oman Chamber of Commerce and Industry (OCCI) President Salim al-Ghattami. Ghattami, who interrupted his attendance at an out-of-town conference to meet with Mermoud, warmly welcomed the opportunity to engage in dialogue on the FTA, which he feels will be critical to the eventual success of the negotiations. He was pleased with the Omani government's preparations for FTA negotiations, including the fact that a private sector representative from the OCCI will be a member of the Omani negotiating team. He said the Chamber was striving to be a transmission belt of private sector questions and concerns about the FTA. Ghattami hopes the U.S.-Oman treaty will create the job-growth seen in countries such as Jordan, and attract large U.S. investments similar to Dow's. While the Dow plant itself may not create lots of jobs, he is confident it will foster spin-offs that multiply job opportunities. Ghattami made a strong pitch to build closer linkages between the OCCI and U.S. chambers of commerce.

Labor Concerns

19. (SBU) Mirroring concerns Mermoud heard elsewhere, Omani businessman Rishi Khimji, of the Ajit Khimji Group of Companies and the MABC Executive Committee, shared his worries about the labor-related aspects of the FTA. He felt that Omani regulations already give overwhelming advantages to workers, particularly Omani nationals, and that labor unions or other entities will make it even harder for employers to fire non-performing or redundant staff. He was also worried about the newly instituted workers representative committees (reftel), whose every activity is closely regulated by the government. He feared those committees may give the government an open door to learn about the inner workings of companies, particularly if a member of the committee has an axe to grind against his employer. While supportive of workers rights, Khimji said the critical difference will be made in how the Omani government implements its labor commitments. As for other aspects of the FTA, Khimji was not concerned about any adverse effect on the services sector apart from expected losses in his own laundry operations, which are dependent upon the rapidly disappearing Omani garment industry. Regarding U.S. commercial opportunities, he was disappointed at the lack of response when his company seeks a U.S. supplier or partner in various deals, which he attributes to the unattractiveness of Oman's small market.

10. (SBU) Mr. Mermoud ended his trip with a visit to the local office of Halliburton to meet with senior manager Bud Bierhaus, another MABC Executive Committee member who is soon to be announced as the new head of South Gulf operations for the company. Halliburton recently won several large contracts with Petroleum Development Oman (PDO), the majority state-owned oil company, which marks the first successful

back-to-back contracts in the company's experience in Oman. Nonetheless, Halliburton remains concerned that "political processes" within PDO prevented the firm from winning even greater contracts. Mr. Mermoud suggested ways in which Halliburton could work to reverse the damage of its association with troubles in Iraq: touting its outstanding Omanization record, for example. Other concerns voiced by Bierhaus centered around labor and the excessive restrictions on firing employees. Bierhaus asserted that labor rights will be a big issue for Halliburton in the upcoming FTA negotiations.

Comment

11. (SBU) Frank Mermoud's visit to Oman provided a glimpse at the future potential for American business in the Sultanate. Much of this potential remains untapped due to an apparent lack of interest by U.S. firms that are busy seeking more lucrative markets in the region. For those American companies present in Oman, labor issues dominate their concerns. As FTA negotiations begin in earnest, we will seek to address these concerns while attracting greater interest in Oman from the U.S. private sector.
BALTIMORE